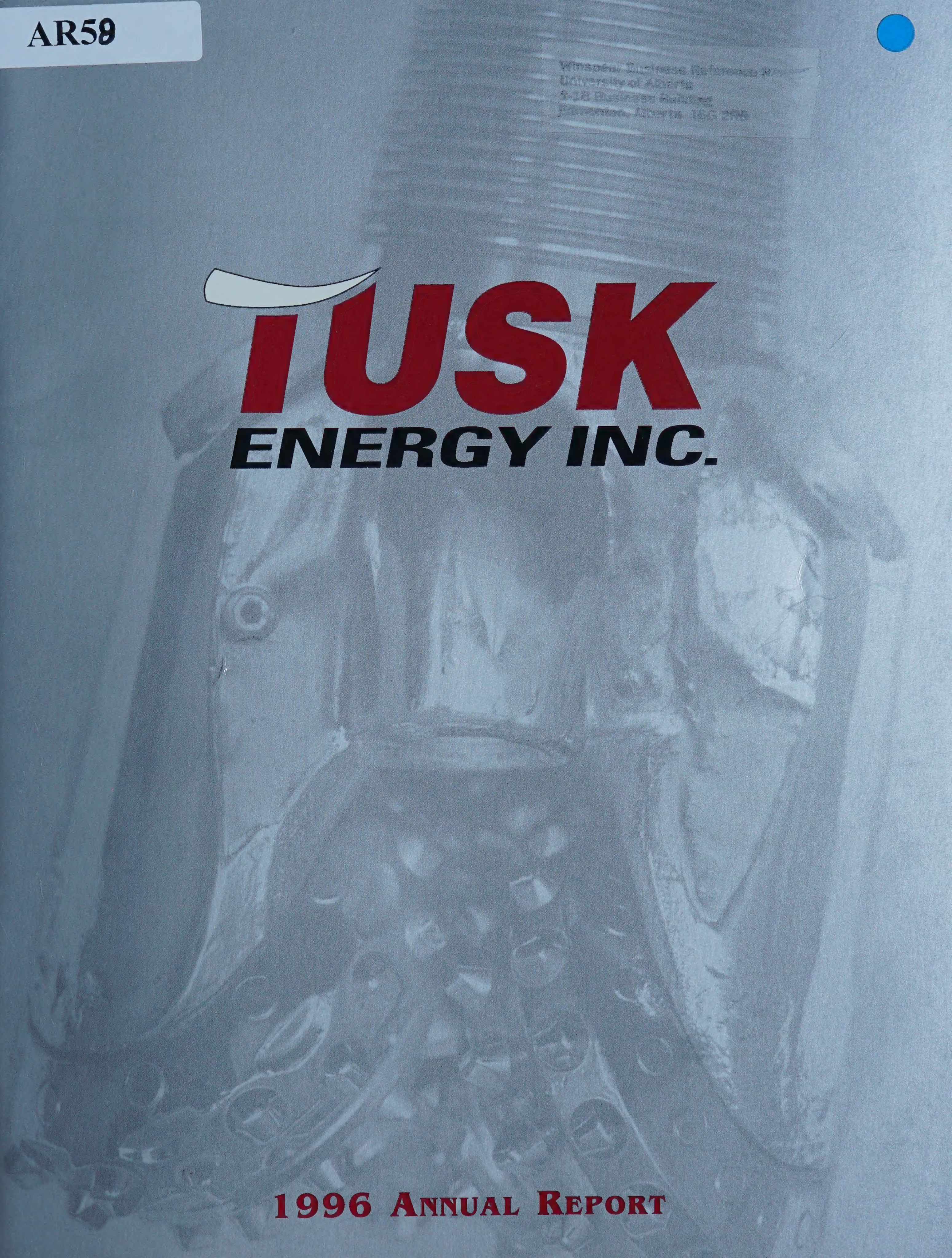


TUSK ENERGY INC.

1996 Annual Report

TUSK Energy Inc. is a public company engaged in the exploration for, development of and production of oil and gas in Western Canada. The common shares of the Company trade on The Alberta Stock Exchange (Symbol: TKE). TUSK is a reporting issuer in the provinces of Ontario, Saskatchewan, Alberta and British Columbia.

The major asset of the Company is its interest in the Meekwap area of Alberta which produces light oil and natural gas. The Company also has light oil production at various other Alberta locations (Progress, Spirit River, Leduc and [illegible] Green) and gas/condensate production at Gilby, Alberta. The exploration programs of the Company concentrate on light oil and natural gas prospects. TUSK is currently operating approximately 82% of its production and [illegible] its exploration prospects.

Stockholder Information

As of December 31, 1996, there were 4,671,870 shares outstanding of the Company. In addition, there were 2,805,566 special warrants outstanding that were converted into common shares on a one for one basis in February, 1997. The Annual Meeting of TUSK Energy Inc. will be held at 3:00 p.m. (Calgary time) on Thursday, June 5, 1997 at The 400 Club, 710 - 4th Avenue S.W., Calgary, Alberta.

Contents

Abbreviation Table

bopd	barrels of oil per day
bpd	barrels per day
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
Mbbls	thousands of barrels
Mcf	thousand cubic feet
MMcf	million cubic feet
BPO	before payout
APO	after payout

1 barrel of oil = 0.15891 cubic metres
1 Mcf of gas = 28.17399 cubic metres
1 barrel of oil equivalent = 10 Mcf gas

Highlights

		Year Ended December 31, 1996		Year Ended December 31, 1995	Percentage Change
FINANCIAL					
Revenue (net of royalties)	$	4,065,606	$	2,277,728	78%
Cash Flow					
From Operations	$	2,218,194	$	1,202,956	84%
Per Share	$	0.44	$	0.29	52%
Working Capital	$	613,267	$	305,893	100%
Capital Assets	$	12,090,657	$	4,434,993	173%
Common Shares(1)		5,055,621		4,168,581	21%
Common Shares(2)		7,852,426		4,829,160	63%
OPERATING					
Production					
Oil & NGL's (bopd)		455		307	48%
Gas (Mcfd)		910		416	119%
Exit Rate					
Oil & NGL's (bopd)		610		487	25%
Gas (Mcfd)		1,000		596	68%
Reserves (proven and probable)					
Oil & NGL's (bbls)		1,776,800		1,217,000	46%
Gas (MMcf)		1,323		1,098	20%
Land Holdings (Canada)					
Gross Acres		64,560		21,280	203%
Net Acres		24,073		3,747	542%

Note:
(1) Weighted average.
(2) Includes the common shares to be issued upon exercise of 2,805,566 special warrants and 375,000 flow through share purchase rights, each of which are convertible into common shares on a one for one basis. As of December 31, 1996 the number of common shares outstanding was 4,671,860.

Message to Shareholders

We are pleased to report on the accomplishments of TUSK Energy Inc. during the fiscal year ended December 31, 1996. Cash flow, cash flow per share and production all reached record levels. In addition, two key corporate objectives were achieved during the fiscal year. The first, the expansion of our exploration program, resulted in a substantial increase in our undeveloped acreage position with TUSK now having 25 exploration plays. The second, the acquisition of a property with upside potential, was accomplished with the purchase of working and royalty interests in the Meekwap D-2A Unit in November, 1996.

Cash flow, cash flow per share and production all reached record levels in 1996.

Highlights

- *increase in cash flow per share by 52% to $0.44;*
- *increase in cash flow from $1,202,956 to $2,218,194;*
- *increase in average production from 349 boepd to 546 boepd;*
- *acquisition of 16.73% working interest in Meekwap D-2A Unit in November, 1996;*
- *appointed operator of Meekwap Unit in December, 1996;*
- *9-fold increase in undeveloped acreage from 2,208 to 20,039 net acres.*

Since the end of the fiscal year TUSK has:

- *drilled a successful horizontal development well at Meekwap which is expected to add significant levels of incremental production over the near term;*
- *expanded its acreage position on a prospect in the Strachan area to 14.5 gross sections.*

Strategy for Growth

Increases in production and cash flow during 1996 were a consequence of the successful implementation of a three part growth strategy:

- *focus on light oil and natural gas;*
- *acquire oil and gas assets with upside potential;*
- *operate investments wherever possible.*

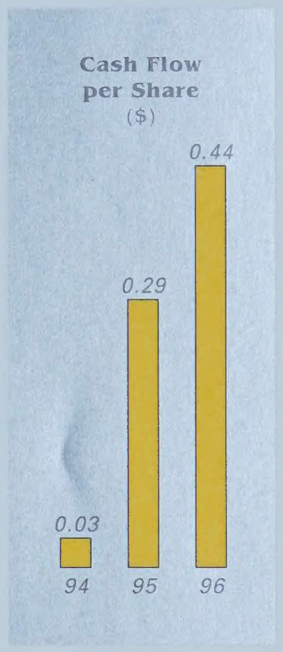
During fiscal 1996 TUSK spent more than $800,000 on land acquisition with all prospects continuing to focus on light oil and natural gas. The Meekwap acquisition has substantial upside for the Company with potential for increased oil and gas production by drilling additional horizontal development wells and by improving the water injection system. In addition, Meekwap has potential for increased profitability through cost effective management of the asset. As of the end of fiscal 1996, TUSK operated 90% of its exploration lands and 82% of its production.

Management & Personnel

The rapid growth of TUSK in the past year has required some additions to management and staff. In November, the management team was expanded with the appointment of Calvin Gabel as Vice President, Exploration. At year end, Joanne Robertson was appointed Chief Accountant and George Benwell joined the Company as Area Foreman, based at TUSK's Whitecourt office.

Outlook

During fiscal 1996 TUSK continued to grow consistently. Cash flow (up 84%), cash flow per share (up 52%) and production (up 56%) all increased markedly over the prior year. Management believes this growth trend will continue into 1997. Production (750 boepd) and cash flow (annualized $3.6 million) were both at their highest levels ever during the fourth quarter of the fiscal year. Excellent development potential at Meekwap and numerous exploration prospects position the Company for steadily increasing levels of activity.



While an acute shortage of drilling rigs during the first quarter of 1997 has made it difficult for smaller companies to execute their drilling strategies, TUSK anticipates participation in up to 20 wells during the 1997 fiscal year.

We have been pleased to see the consistent rise in share value in the past year. However, the current share price ($1.25) does not, in our opinion, reflect the expansion of our exploration potential, our consistent growth or the quality of our producing properties.

The Company has built a solid foundation. With committed and competent personnel, numerous exploration prospects and significant development potential we believe that the future looks very promising for TUSK.

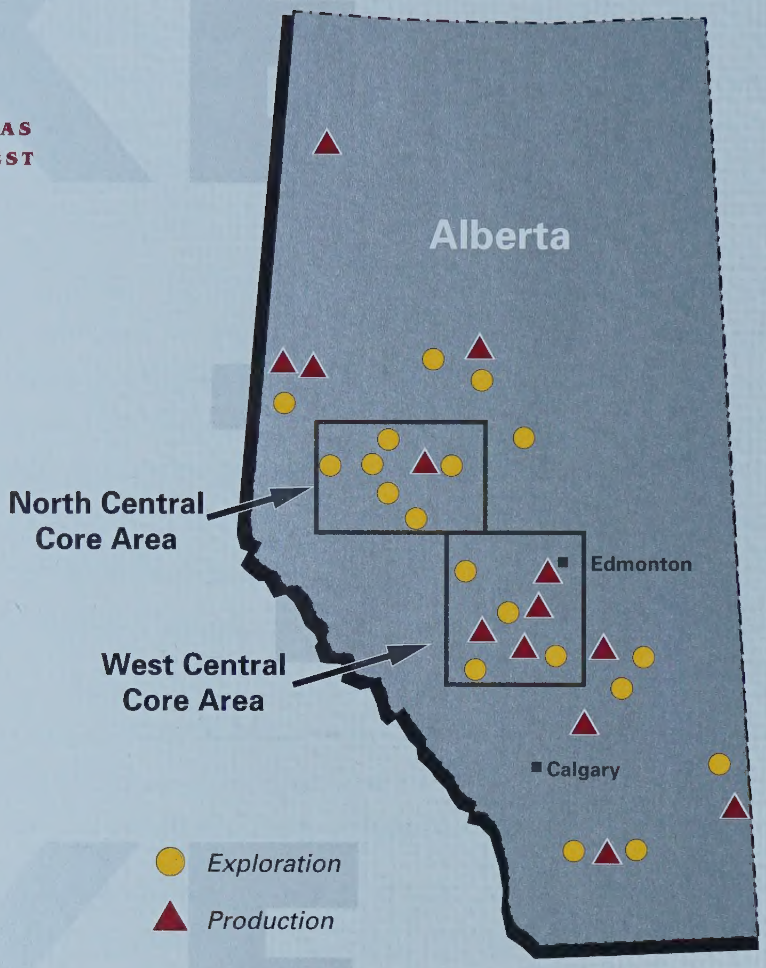
Norman W. Holton

President & Chief Executive Officer

April 3, 1997

Review of Operations

Tusk Areas Of Interest

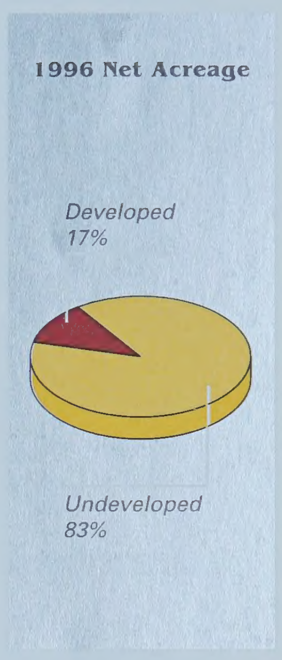


Highlights

- *Meekwap D2-A Unit No. 1 – acquired 16.7% working interest;*
- *Meekwap D2-A Unit No. 1 – appointed operator;*
- *focus on light oil – over 77% of production is light oil;*
- *focus on operating – over 82% of production and 90% of exploration lands being operated by TUSK;*
- *expanded exploration – added over 20 new exploration plays and acquired over 18,000 net acres of undeveloped acreage;*
- *exploration prospects – average working interest of over 60%;*
- *exploration prospects – average reserve potential 300 Mstboe.*

Exploration & Land

During 1996 TUSK concentrated its exploration efforts on the generation of new prospects and the expansion of its undeveloped land inventory. This objective suited the longer range plan of management to build an inventory of future opportunities for the Company which could be exploited with the incremental cash flow provided by the Meekwap acquisition. Land holdings increased dramatically during 1996. TUSK expended over $800,000 on the acquisition of lands, adding significant interests in more than 20 exploration plays to its inventory.

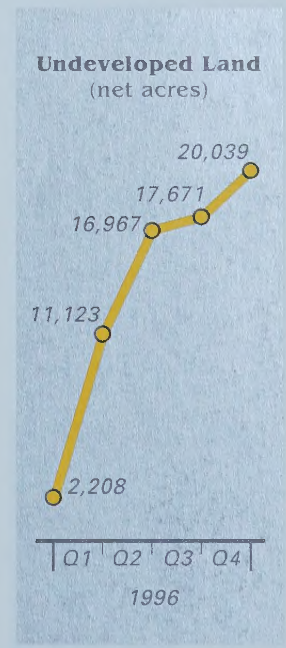


The exploration efforts of the Company focus on light oil and natural gas in areas where there is good infrastructure, multiple objectives and larger reserve accumulations. The North Central Core area includes Meekwap, the Company's major producing property. Within this core area, in addition to other prospects, TUSK holds strategic land positions on a Halfway gas prospect at Karr, a Montney oil prospect at Iosegun and a Bluesky gas prospect at Pine Creek.

The West Central Core area includes, among others, a Devonian oil prospect at Entwistle and a Leduc gas prospect at Strachan.

Company prospects are weighted approximately 60% light oil and 40% natural gas based upon potential reserves. Average gross prospect reserve potential is relatively large at 300,000 boe. TUSK operates 90% of its exploration prospects and holds an average working interest of more than 60%. The Company's large working interest in prospects gives TUSK the flexibility to farm-out a portion and still maintain a sizable interest.

The average reserve size and the oil/natural gas prospect ratios outlined above do not include the Company's Leduc gas prospect at Strachan. Strachan, the wildcard in the Company's exploration portfolio, is a high risk / high reward prospect with potential for sizable reserves (over 500 Bcf).



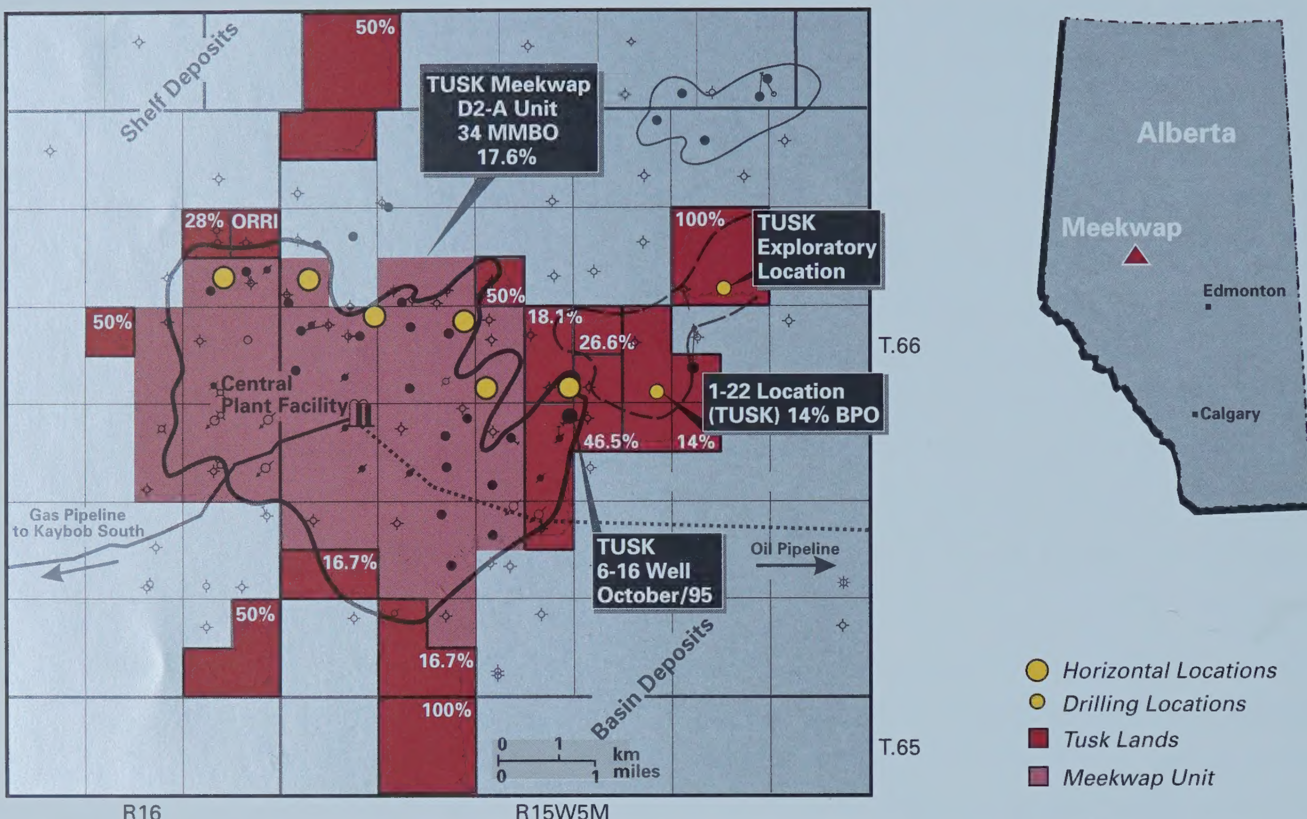
Property Review

TUSK's focus on light oil production is demonstrated by its major producing property at Meekwap, Alberta.

Meekwap, Alberta

Meekwap first became an important area for TUSK in late 1995 when the Company drilled a well at 16-16-66-15 W5M on 5 quarter sections it had purchased on the eastern flank of the Meekwap Unit. The 16-16 well, completed in the Nisku Formation, produced over 700 bopd during its first 3 months of production and paid out over $1.1 million in drilling, completion and tie-in costs. TUSK's working interest APO is 46.5%. Up to December 31, 1996 the 16-16 well had produced 176,000 barrels of oil.

Meekwap Area



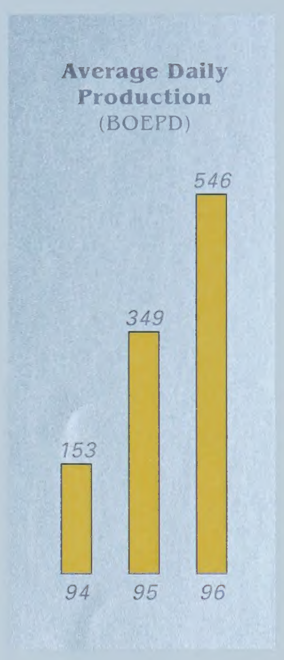
In November, 1996 TUSK closed the purchase of a 16.7344% working interest and a 0.87533% net profits interest in the Meekwap D2-A Unit No. 1 together with various working interests in certain non-producing lands in the immediate area.

The Meekwap Unit covers 7,200 gross acres (more than 11 sections) and contains 17 producing oil wells, 4 injection wells and one water source well. Unit production during the month of December, 1996 averaged 2,287 bopd and 2,355 Mcfd (2,522 boepd) gross (444 boepd net). TUSK was elected operator of the Unit in December, 1996.

The discovery well for the Unit was drilled in 1966. Subsequent developments led to the formation of the Unit in 1974. Total production from Unit wells to date is almost 34 million barrels of oil. TUSK believes that an additional 8 million barrels of oil remains to be recovered. Significant levels of incremental production may be obtained by drilling new horizontal wells along the updip edge of the reservoir and by improving the water injection system to sweep oil, which might not otherwise be recovered, into existing wells.

Prior to 1996, six horizontal wells had been drilled within Unit boundaries. Average production from these wells during their first year of production exceeded 600 bopd with initial production rates as high as 2,000 bopd. TUSK hopes to drill up to 5 additional horizontal wells during 1997. The first of these, drilled at 16-20-66-15 W5M in late March of 1997, is currently being completed. The second, at 6-25-66-16 W5M will be drilled in April, 1997.

TUSK anticipates substantial incremental production to the Company from the drilling of Meekwap development wells. The additional cash flow provided from this production will be re-invested in an expanded exploration and drilling program to exploit some of the numerous prospects developed by the Company over the past year.



Production

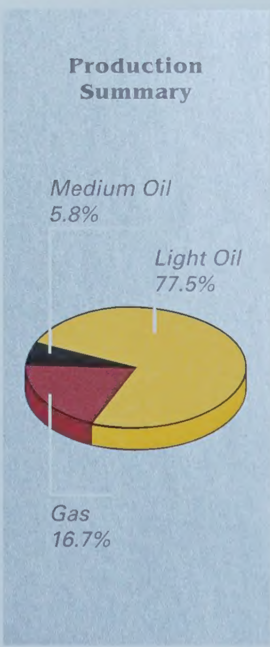
Virtually all of the Company's production comes from six areas in Alberta with over 78% of total production being derived from the Meekwap Unit and Meekwap east flank lands. The Company owns interests in one minor oil producing property in Saskatchewan.

Production has grown steadily over the past several years. Average production for the year was 455 bopd and 910 Mcfd (546 boepd), a significant increase over the production levels of 1995. The net production of TUSK is heavily weighted to oil.

Reserves and Future Net Revenue

TUSK's reserves were evaluated at January 1, 1997 by Gilbert Laustsen Jung Associates Ltd., an independent reservoir engineering firm.

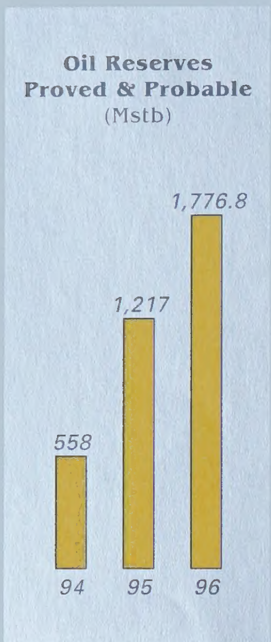
Crude oil and NGL reserves increased 46% from 1217.1 Mbbls to 1776.8 Mbbls and natural gas reserves increased 20% from 1098.0 MMcf to 1323 MMcf. These reserves are gross proven and probable reserves, net of production and revisions to prior years estimates.



The present worth value before income taxes of the proven plus probable reserves (risked at 50%) at 15% discount factor is $16,701,600, a 86% increase over the January 1, 1996 amount. These values were based on constant price and cost assumptions as estimated by Gilbert Laustsen Jung Associates Ltd.

Estimated Reserves of Crude Oil and Natural Gas based on Constant Price and Cost Assumptions at January 1, 1997

	Crude Oil & NGL's (Mbbls)		Natural Gas (Mmcf)	
	Gross	Net	Gross	Net
Proved Developed Producing	1,005.5	753.4	863	608
Proven Undeveloped	122.8	82.8	54	36
Total Proven	1,128.3	836.2	917	644
Probable	648.5	459.4	406	282
Total	**1,776.8**	**1,295.6**	**1,323**	**926**



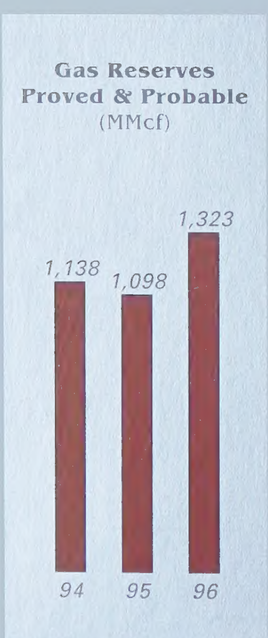
Discounted Value of Estimated Future Net Revenue before Income Taxes based on Constant Price and Cost Assumptions at January 1, 1997

($ Thousands)		Discounted at		
	Undiscounted	10%	15%	20%
Proven Developed Producing	19,400	14,400	12,900	11,700
Proven Undeveloped	2,100	1,600	1,400	1,300
Total Proven	21,500	16,000	14,300	13,000
Probable	5,197	3,022	2,402	1,911
Total	**26,697**	**19,022**	**16,702**	**14,911**

Reserve Reconciliation (Before Royalties)

The following table provides the changes in TUSK's gross reserves based on constant price and cost assumptions since January 1, 1996. Gross reserves are the Company's share of reserves and net reserves are gross reserves after deduction for crown, freehold and other royalties.

	Proven			Proven & Probable		
	Crude Oil & NGL's (mbbls)	Natural Gas (mmcf)	MBOE	Crude Oil & NGL's (mbbls)	Natural Gas (mmcf)	MBOE
January 1, 1996	853.6	975.0	951.1	1,217.1	1,098.0	1,326.9
Production	(165.9)	(332.1)	(199.1)	(165.9)	(332.1)	(199.1)
Discoveries	–	–	–	–	–	–
Purchases	750.0	360.7	786.1	1,114.7	503.0	1,165.0
Divestitures	(338.7)	–	(338.7)	(338.7)	–	(338.7)
Adjustments	29.3	(86.6)	20.6	(50.4)	54.1	(45.0)
December 31, 1996	1,128.3	917.0	1,220.0	1,776.8	1,323.0	1,909.1



Reserve Life Index (Years)

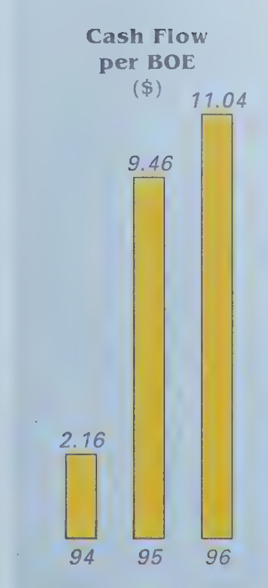
(December 31, 1996)	Proven	Proven & Probable
Crude Oil & NGL's	6.8	10.7
Natural Gas	2.8	4.0

Asset Value Per Common Share

(December 31, 1996)		
Assets		
Working Capital	$	613,267
Proved and Probable Reserves (Constant Pricing) (per Gilbert Laustsen Jung Associates Limited Reserve Report @15% DCF)		16,701,600
Proved and Probable Reserves For Minor Properties not Evaluated by Independent Engineers (Management's Estimate @15% DCF)		300,000
Estimated Cash Value of Tax Pools (@$0.10 per Dollar of Tax Pools)		1,429,400
Undeveloped Land (@$75/Acre)		1,500,000
Other Assets, Net		200,000
	$	20,744,267
Liabilities		
Long-Term Debt		(5,385,655)
Future Site Restoration Provision		(106,300)
Net Asset Value	**$**	**15,252,312**
Common Share Equivalents Outstanding December 31, 1996		7,852,426
Net Asset Value Per Common Share	**$**	**1.94**

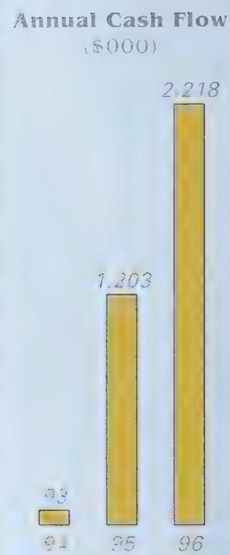
Summary of Information Per BOE

	Year Ended December 31 1996	Year Ended December 31 1995
Gross Revenue	**$ 24.63**	$ 21.33
Royalties, Net of ARTC	**4.36**	3.43
Net Revenue	**20.27**	17.90
Operating Expense	**5.52**	4.82
Net Operating Revenue	**14.75**	13.08
General & Administrative and Shareholder Information	**2.29**	2.12
Interest Expense	**$ 1.42**	$ 1.50
Cash Flow Per BOE	**$ 11.04**	$ 9.46



Management's Financial Analysis and Discussion

The following discussion is presented in conjunction with the consolidated financial statements and accompanying notes.



Oil and Gas Revenues

Oil and gas revenue, before royalties, for the year ended December 31, 1996 was $4,946,739 compared to $2,668,138 for the year ended December 31, 1995, an 85% increase. This was due to a 56% increase in BOE production from 127,256 BOE to 199,091 BOE and improved product prices.

	Year Ended December 31 1996	Year Ended December 31 1995
Oil and Gas Revenues, Before Royalties	$ 4,946,739	$ 2,713,895
Oil Production	165,881	112,056
Oil Price ($bbl)	$ 26.38	$ 21.78
Gas Production (MMcf)	332	152
Gas Price ($/Mcf)	$ 1.43	$ 1.13
BOE Production	199,091	127,256
BOE per Day	546	349

Royalties

Total royalties, net of Alberta Royalty Tax Credit ("ARTC"), were $881,133 ($4.43 per BOE) for the year ended December 31, 1996 compared to $436,167 ($3.43 per BOE) for the year ended December 31, 1995.

The royalty increase per BOE in 1996 was due to the Company's Meekwap D-2A Unit acquisition. The Crown Royalty property rate is high at Meekwap and the acquired interests at Meekwap do not receive Alberta Royalty Tax Credit ("ARTC").

	Year Ended December 31 1996	Year Ended December 31 1995
Crown Royalties	$ 1,168,355	$ 595,866
Freehold Royalties	33,342	13,097
Gross Overriding Royalties	117,922	108,754
	1,319,619	717,717
Alberta Royalty Tax Credit	(438,486)	(281,550)
Net Royalties	881,133	436,167
Net Royalties per BOE	$ 4.43	$ 3.43

Operating Expenses

Operating expenses in calendar 1996 were $1,104,612 ($5.55 per BOE) compared to $613,938 ($4.82 per BOE) in fiscal 1995. The increase is mainly due to gas processing and transportation fees charged against gas production at Keho, Alberta.

Depletion and Depreciation

Depletion and depreciation was $1,449,180 for the year ended December 31, 1996, which represents a provision of $7.23 per BOE of production. For the year ended December 31, 1995, the Company recorded a depletion and depreciation provision of $636,200 ($5.00 per BOE).

General and Administrative

	Year Ended December 31 1996	Year Ended December 31 1995
Gross General and Administrative	$ 718,276	$ 439,964
Acquisition, Exploration & Development Costs Capitalized	(220,400)	(90,500)
Overhead Recoveries	(74,704)	(102,826)
Net General and Administrative	423,172	246,638
Per BOE	$ 2.13	$ 1.94

Equity

On November 19, 1996, the Company closed an offering of 2,805,566 special warrants raising gross proceeds of $3,487,269. Of the total, 1,205,900 were flow-through special warrants priced at $1.30 and 1,599,666 were special warrants priced at $1.20. Holders of the $1.20 special warrants received, for each two special warrants purchased, a warrant to purchase an additional common share of the Company at $1.40 for a term of one year. On December 23, 1996 the Company issued 375,000 flow-through share purchase rights at a price of $1.34 each for gross proceeds of $502,500.

In September, 1995 the Company received approval to purchase up to 438,000 of its outstanding common shares until September 26, 1996 under a Normal Course Issuer Bid. A total of 214,300 common shares were purchased for a cost of $200,080.

Capital Expenditures

Capital additions for the year ended December 31, 1996 were $9,854,844 compared to $2,106,740 for the year ended December 31, 1995.

The major additions were the acquisition of the Meekwap D-2A Unit for approximately $6,671,000 and the acquisition of an interest in the Spirit River Unit for $710,000. A total of $807,752 was spent on land acquisitions at Crown land sales increasing the Company's undeveloped acreage to 20,039 net acres.

	Year Ended December 31 1996	Year Ended December 31 1995
Land	**$ 807,752**	$ 203,148
Seismic	**161,247**	14,598
Drilling & Exploration	**1,232,056**	1,228,556
Facilities	**66,935**	235,568
Acquisitions	**7,570,579**	418,320
Mining	**–**	(57)
Corporate	**16,275**	6,607
Total	**$ 9,854,844**	$ 2,106,740

Liquidity

TUSK had working capital of $613,267 at December 31, 1996. Concurrent with the acquisition of the Meekwap D-2A Unit the Company finalized a financing arrangement with a Canadian financial institution whereby the Company has been provided a $6.7 million revolving production loan and a US $1.5 million swap facility of which $5,385,655 was drawn at December 31, 1996.

Share Trading Information

	1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 1.10	$ 1.40	$ 1.24	$ 1.35
Low	0.75	0.75	0.90	1.00
Close	$ 0.79	$ 0.90	$ 1.05	$ 1.15
Volume	449,749	609,260	498,193	1,747,655
Value	$ 385,848	$ 610,018	$ 511,234	$2,199,350

Quarterly Data (Unaudited)

A quarterly summary of the key financials results reported in the 12 months ending December 31, 1996 are as follows:

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Oil & Gas Revenue, Net of Royalties	$1,634,989	$ 900,902	$ 710,984	$ 818,731
Net Income (Loss)	441,699	(94,494)	68,829	285,180
Net Income (Loss) Per Share	0.08	(0.02)	0.02	0.06
Cash Flow	909,179	468,136	328,099	512,780
Cash Flow Per Share	0.16	0.10	0.07	0.11
Annualized Cash Flow	$ 0.64	$ 0.40	$ 0.28	$ 0.44
BOE per Day	750	452	438	500

Income Tax Pools (Unaudited)

The consolidated income tax pools for the Company and its subsidiaries estimated as of December 31, 1996 are as follows:

	December 31 1996
Canadian Exploration Expense	$ 1,189,000
Canadian Development Expense	270,000
Canadian Oil & Gas Property Expense	9,577,000
Mining Depletion	30,000
Foreign Exploration and Development	511,000
Undepreciated Capital Costs	1,931,000
Business Losses	4,000
Share Issue Expenses	782,000
	$ 14,294,000

The accomplishments of the Company over the past few years are made possible by the dedication and effort of the TUSK team of employees and consultants.

Accounting & Finance

[illegible]
Secretary

[illegible]
[illegible] President

[illegible]
Production Accountant

[illegible] Robertson
[illegible] Accountant

[illegible] & Production

[illegible]

[illegible] Technician

[illegible] Foreman

[illegible]

Exploration & Land

Cal Gabel
Vice President

Dave Felber
Geological Technician

Bob Humiski
Geologist

Jean MacLean
Landman

Darol Turnquist
Geologist

Corporate

Michele Campbell
Secretary

Elaine Cossette
Receptionist

Norm Holton
President

Management Report

The financial statements are the responsibility of the management of TUSK Energy Inc. They have been prepared in accordance with generally accepted accounting principles, using management's best estimates and judgements, where appropriate.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board is assisted in exercising its responsibilities by the audit committee, which is comprised of outside directors. The audit committee has reviewed the attached financial statements with management and the auditors and has reported to the board of directors. The directors have approved the financial statements of TUSK which are contained in the annual report.

KPMG, the independent auditors appointed by the shareholders, have audited the Company's financial statements in accordance with generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the audit committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

N W Holton

Norman W. Holton
President and Chief Executive Officer

Gordon K Case

Gordon K. Case
Vice President and Chief Financial Officer

April 3, 1997

Auditor's Report

To the Shareholders of TUSK Energy Inc.

We have audited the consolidated balance sheets of TUSK Energy Inc. (formerly TUSK Resources Inc.) as at December 31, 1996 and 1995 and the consolidated statements of operations and retained earnings (deficit) and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Calgary, Canada

February 28, 1997

Consolidated Balance Sheets

	December 31 1996 ($)	December 31 1995 ($)
ASSETS		
Current Assets		
Cash	**18,836**	10,644
Accounts Receivable	**1,160,882**	812,489
Prepaid Expenses	**34,599**	26,966
	1,214,317	850,099
Capital Assets (Note 2)	**12,090,657**	4,434,993
	13,304,974	5,285,092
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	**601,050**	544,206
Long-Term Debt (Note 3)	**5,385,655**	1,662,500
Future Site Restoration	**106,300**	38,500
Shareholders' Equity		
Capital Stock (Note 4)	**5,977,499**	2,506,630
Retained Earnings (Note 4)	**1,234,470**	533,256
	7,211,969	3,039,886
Commitments (Note 6)		
	13,304,974	5,285,092

Approved on Behalf of the Board:

N W Holton

Norman W. Holton, Director

James Lawson

James E. Lawson, Director

See Accompanying Notes

Consolidated Statement of Operations and Retained Earnings (Deficit)

	For the Year Ended December 31 1996 ($)	For the Year Ended December 31 1995 ($)
Revenue		
Oil and Gas Revenues, Net	**4,065,606**	2,277,728
Expenses		
Oil and Gas Operating	**1,104,612**	613,938
Interest on Long-Term Debt	**283,940**	190,695
Provisions for Future Site Restorations	**67,800**	33,500
General and Administrative	**423,172**	246,638
Shareholder Information	**35,688**	23,501
Depreciation and Depletion	**1,449,180**	636,200
	3,364,392	1,744,472
Net Income for the Year	**701,214**	533,256
Retained Earnings (Deficit), Beginning of Year	**533,256**	(6,466,308)
Reduction of Capital Stock (Note 4)	**–**	6,466,308
Retained Earnings, End of Year	**1,234,470**	533,256
Net Income per Share		
Basic	**0.14**	0.13
Fully Diluted	**0.13**	0.13

See Accompanying Notes

Consolidated Statements of Changes in Financial Position

	For the Year Ended December 31 1996 ($)	For the Year Ended December 31 1995 ($)
Operating Activities		
Operations:		
Net Income	701,214	533,256
Deduct:		
Items not Requiring Working Capital		
- Provision for Future Site Restorations	67,800	33,500
- Depreciation and Depletion	1,449,180	636,200
Funds from Operations	2,218,194	1,202,956
Change in Non-cash Working Capital	(74,290)	(538,787)
Cash Provided by Operating Activities	2,143,904	664,169
Financing Activities		
Issue of Capital Stock	3,993,269	1,000,000
Share Issue Costs	(377,300)	(68,667)
Repurchase of Common Shares	(145,100)	(54,980)
Long-Term Debt	3,723,155	62,500
Increase in Non-Cash Working Capital	(70,000)	–
	7,124,024	938,853
Investing Activities		
Oil and Gas Properties	(9,838,569)	(2,100,190)
Proceeds on Sales of Oil and Gas Properties	750,000	438,377
Mineral Properties	–	57
Furniture and Equipment	(16,275)	(6,607)
Change in non-cash working capital	(154,892)	73,205
	(9,259,736)	(1,595,158)
Increase in Cash During the Year	8,192	7,864
Cash: Beginning of Year	10,644	2,780
Cash: End of Year	18,836	10,644
Funds from Operations per Share		
Basic	0.44	0.29
Fully Diluted	0.43	0.29

See Accompanying Notes

Notes to Consolidated Financial Statements

1. Significant Accounting Policies

(a) *Basis of Presentation:*

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, New Quebec Platinum Inc., TUSK Oil Corporation and 416600 Alberta Inc.

(b) *Oil and Gas Properties:*

The Company follows the full cost method of accounting in accordance with the guidelines issued by the Canadian Institute of Chartered Accountants, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized. All such costs are accumulated in two cost centres representing the Company's activities undertaken in Canada and the United States. Such costs include land acquisitions, drilling and geological and geophysical expenses related to exploration and development activities. Gains or losses are not recognized upon disposition of oil and gas properties unless crediting the proceeds against accumulated costs would result in a significant change in the rate of depletion.

Costs capitalized in the cost centres are depleted using the unit-of-production method, based on estimated proven oil and gas reserves, before royalties, as determined by independent consulting engineers. For purposes of the depletion calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative heating value. The carrying value of undeveloped properties is excluded in the depletion calculation.

In applying the full cost method, the Company performs a ceiling test which limits the capitalized costs less accumulated depletion and depreciation to an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on year-end prices and costs, and after deducting estimated future general and administrative expenses, future abandonment and site restoration costs, financing costs and income taxes.

The Company periodically reviews the costs associated with undeveloped properties to determine whether the costs will be recoverable. An impairment allowance is made if the results of the review indicate an impairment has occurred.

Estimated future abandonment and site restoration costs are charged to the accumulated provision account as incurred.

(c) *Undeveloped Mineral Properties:*

Costs relating to the acquisition, exploration and development of non-producing mining properties, including exploratory related administration costs, are capitalized until such time as either economically recoverable reserves are established or the properties are sold, abandoned or condemned. Costs relating to projects which have been abandoned are written off at that time. Costs relating to economically feasible projects will be amortized on a unit of production basis utilizing established proven reserves. Grants received for expenditure of costs on mineral properties are credited to the cost of mineral properties.

The Company holds an interest in a mineral exploration prospect and has not yet determined whether the property contains ore reserves that are economically recoverable. The recoverability of expenditures on mineral properties and related deferred costs is dependent upon the availability of necessary financing to complete the development, and upon future production.

(d) *Joint Ventures:*

Substantially all of the Company's mining and oil and gas activities are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

(e) *Flow-Through Shares:*

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and capital stock are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

(f) *Per Share Amounts:*

Per share amounts have been calculated using the weighted average number of Common Shares outstanding during the year. Fully diluted per share amounts have been calculated assuming the exercise of the purchase warrants, broker warrants and stock options from the issue of the respective warrants or options.

(g) ***Measurement Uncertainty:***
The amounts recorded for depletion and depreciation of capital assets and the provision for future abandonment and site restoration costs are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

(h) ***Comparative Figures:***
Certain comparative figures have been reclassified to conform with the current financial statement basis of presentation.

2. Capital Assets

December 31, 1996

	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and Gas Properties	14,781,942	2,793,932	11,988,010
Mineral Properties	73,080	–	73,080
Furniture and Equipment	61,440	31,873	29,567
	14,916,462	2,825,805	12,090,657

December 31, 1995

	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and Gas Properties	5,693,373	1,353,932	4,339,441
Mineral Properties	73,080	–	73,080
Furniture and Equipment	45,165	22,693	22,472
	5,811,618	1,376,625	4,434,993

During the year administrative overhead expenditures of $220,400 (1995 - $90,500) directly related to the acquisition, exploration and development of petroleum and natural gas reserves have been capitalized. No interest has been capitalized to oil and gas properties in either of the years ended December 31, 1996 or 1995. The depletion calculation has excluded unproved properties of $966,000 (1995 - $ 278,000).

As a result of a ceiling test calculation performed with an effective date of December 31, 1996, it was determined that the estimated future net revenues from proved reserves exceeded the net book value of the Company's petroleum and natural gas properties calculated under the full cost accounting guideline. The prices used in the ceiling test calculation at December 31, 1996 were $31.80 per barrel of crude oil and $1.65 per mcf of natural gas. The ceiling test is a cost recovery test and is not intended to result in an estimate of the fair market value.

As at December 31, 1996, the estimated future site restoration costs to be accrued over the remaining proved reserves are $486,000 (1995 - $ 223,000).

3. Long-Term Debt

Long-term debt is comprised of a production loan with an authorized borrowing base of $6.7 million as at December 31, 1996. The production loan will revolve and fluctuate at the Company's option until June 30, 1997, at which time the bank has undertaken to review the Company's oil and gas properties evaluated in an independently prepared economic engineering evaluation for purposes of redetermining the borrowing base. Interest payments are payable monthly in arrears at the bank's prime lending rate plus 0.5%. There are no current repayments or reductions required relating to the maximum of $6.7 million available under this facility. The loan is secured by a $20 million demand debenture conveying a fixed and floating charge over oil and gas properties, a general security agreement and certain rights and interests to oil and gas properties and equipment of the Company.

4. Capital Stock

*(a) **Authorized:***

The Company authorized capital of:

- an unlimited number of common shares without nominal or par value.
- an unlimited number of first and second preferred shares issuable in series with rights, privileges and conditions to be determined by the Board of Directors.

*(b) **Issued:***

Common shares and Special Warrants were issued as follows:

	December 31, 1996		December 31, 1995	
	Number	Amount ($)	Number	Amount ($)
Balance Beginning of Year	4,829,160	2,506,630	38,826,607	8,542,585
Exercise of Stock Options	3,500	3,500	–	–
Share Consolidation (See below)			3,882,660	8,542,585
Issuance of Flow-Through Common Shares	–	–	1,000,000	1,000,000
Less: Tax Effect of Flow-Through Shares	–	–	–	(446,000)
Repurchased under Normal Course Issuer Bid	(160,800)	(145,100)	(53,500)	(54,980)
Reduction of Stated Capital	–	–	–	(6,466,308)
	4,671,860	2,365,030	4,829,160	2,575,297
Less: Share Issue Expenses	–	(–)	–	(68,667)
Balance End of Year	4,671,860	2,365,030	4,829,160	2,506,630
Private Placement Class A Flow Through Special Warrants	1,205,900	1,567,670	–	–
Private Placement Class B Special Warrants	1,599,666	1,919,599	–	–
	2,805,566	3,487,269	–	–
Less: Share Issue Expenses	–	(377,300)	–	–
	2,805,566	3,109,969	–	–
Private Placement Flow Through Share Purchase Rights	375,000	502,500	–	–
Total Capital Stock		5,977,499		2,506,630

The common shares of the Company were consolidated on the basis of ten shares of TUSK Resources Inc. for one share of TUSK Energy Inc. effective September 7, 1995.

*(c) **Reduction of Share Capital:***

At the Annual Shareholders Meeting held June 7, 1995, the shareholders of the Company adopted a special resolution to reduce the stated capital of the Common Shares by $6,466,308 and, as a result, the deficit of the Company by the same amount.

(d) ***Normal Course Issuer Bid:***
Under a Normal Course Issuer Bid, the Company received approval in September 1995 to purchase up to 438,000 of its outstanding common shares until September 26, 1996. A total of 160,800 shares at a cost of $145,100 were purchased under the plan.

(e) ***Stock Options:***
After giving effect to the ten-for-one stock consolidation, the Company has outstanding options to its officers, directors and employees to purchase in the aggregate 484,500 Common Shares at a price of $1.00 per share for 185,000 shares, expiring June 15, 1999 and at a price of $1.00 per share for 303,000 shares expiring July 24, 2000. During the year no options were granted and 3,500 options were exercised.

(f) ***Special Warrants:***
One common share will be issued, at no additional cost to holders of Class A special warrants, upon exercise of each Class A Special Warrant. One common share and one half of one purchase warrant will be issued, at no additional cost to holders of Class B special warrants. Receipts for the final prospectus were received from the applicable regulatory bodies on January 23, 1997 at which time the special warrants became exercisable.

(g) ***Purchase Warrants:***
Upon the exercise of Class B special warrants, in addition to any common shares the holder is entitled to receive, the holder will be issued, at no additional cost, one half of one purchase warrant. One purchase warrant will entitle the holder thereof, upon payment of $1.40, to purchase one additional common share until November 14, 1997.

(h) ***Flow Through Share Purchase Rights:***
The flow through share purchase rights are exchangeable into common shares for no additional consideration upon written notice by the holder.

(i) ***Broker Warrants:***
The agents for the issue of the special warrants received broker warrants entitling the holder to purchase 91,672 common shares at a price of $1.30 and 127,973 common shares at a price of $1.20 for a term of one year from November 14, 1997.

5. Income Taxes

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory rate of 44.6% to income before income taxes. The reasons for the differences are as follows:

	Year Ended Dec. 31, 1996 ($)	Period Ended Dec. 31, 1995 ($)
Expected Income Tax Payable	312,700	237,800
Non-deductible Crown Charges	516,800	265,800
Alberta Royalty Tax Credit	(193,800)	(125,600)
Resource Allowance	(339,900)	(173,500)
Depletion with no Tax Basis	110,000	90,100
Other	8,100	(2,200)
(Recognized) Benefits of Losses	(413,900)	(292,400)
Actual Income Tax Expense	–	–

At December 31, 1996 the Company and its subsidiaries have approximately $14,300,000 of unused tax pools.

At December 31, 1996 approximately $1,100,000 of the Company's assets are without income tax basis.

6. Commitments

(a) The Company entered into an agreement to lease office space for five years beginning January 1, 1997 for approximately $155,000 per year. A portion of the office space is subleased for a two year term beginning January 1, 1997 for approximately $69,000 per year.

(b) At December 31, 1996 the Company has a commitment to renounce a further $2,000,000 of tax attributes associated with exploratory and development activities.

Six Year Review

	Years Ended December 31		Nine Months Ended December 31	Years Ended March 31		
	1996	1995	1994	1994	1993	1992
Revenue						
Oil and Gas						
Revenues, Net	4,065,606	2,277,728	793,672	685,913	3,151	1,104
Expenses						
Oil and Gas Operating	1,104,612	613,938	308,334	267,409	–	–
Interest on Long-Term Debt	283,940	190,695	152,710	22,740	–	–
Provision for Site Restoration	67,800	33,500	7,000	8,000	–	–
General and Administrative	458,860	270,139	239,757	189,846	101,759	56,413
Depreciation and Depletion	1,449,180	636,200	507,500	1,248,650	722	208
Loss on Disposition of						
Oil and Gas Property	–	–	3,590,401	–	–	–
Property Impairment	–	–	–	636,432	12,139	130,000
	3,364,392	1,744,472	4,805,702	2,373,077	114,620	186,621
Net Income (Loss)	701,214	533,256	(4,012,030)	(1,687,164)	(111,469)	(185,517)
Cash Flow from Operations	2,218,194	1,202,956	92,871	205,918	(98,608)	(55,309)
Balance Sheet						
Working Capital (Deficiency)	613,267	305,893	(167,553)	(1,735,206)	(2,386)	27,495
Capital Assets	12,090,657	4,434,993	3,848,830	7,798,110	753,928	207,441
Long-Term Debt	5,385,655	1,662,500	1,600,000	660,000	–	–
Future Site Restoration	106,300	38,500	5,000	8,000	–	–
Shareholders' Equity	7,211,969	3,039,886	2,076,277	5,394,904	751,542	234,936
Per Share Data						
Net Income (Loss) per Share	0.14	0.13	(1.10)	(1.40)	(0.20)	(1.10)
Cash Flow per Share	0.44	0.29	0.03	0.18	(0.16)	(0.14)
Production						
Oil (bopd)	455	307	153	146	–	–
Gas (Mcfd)	910	416	–	–	–	–
Reserves (Proven & Probable)						
Oil (bbls)	1,776,800	1,217,000	558,000	832,500	–	–
Gas (Mmcf)	1,323	1,098	1,138	1,029	–	–

Corporate Information

Board of Directors

William E. Code, Q.C.
Calgary, Alberta

Norman W. Holton
Calgary, Alberta

James E. Lawson, C.A.*
Calgary, Alberta

John D. Morgan*
Montreal, Quebec

Aaron Brotman, C.A.*
Toronto, Ontario

** Audit Committee*

Officers

Norman W. Holton, P.Geol.
President, Chief Executive Officer

Gordon K. Case, C.A.
Vice President, Chief Financial Officer

Edward F. Thurmeier, P.Eng.
Vice President, Production & Engineering

Calvin G. Gabel
Vice President, Exploration

Brian W. Mainwaring
Secretary

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